# Media Release

CONTACT: Karen L. Dorway, President
BAUERFINANCIAL Inc.
TEL: 1.800.388.6686
FAX: 1.800.230.9569
www.bauerfinancial.com
kdorway@bauerfinancial.com

**FOR IMMEDIATE RELEASE:**

**To the Editor:**

## A Quarter of a Century of Events, Rates

**January 4, 2008: BAUERFINANCIAL, Inc. Coral Gables, Florida's** flagship newsletter, ***Jumbo Rate News***, celebrates its 25 anniversary this year. A lot has changed since we began tracking the CD market 25 years ago. For one thing, Jumbo CD rates were in the double digits back then. It's been a long time since we've seen rates like that, but then again, it's difficult to find a familiar name glancing through those old ***Jumbo Rate News (JRN)*** pages. Between the savings and loan crisis and the multitude of mergers and acquisitions over the 2½ decades, it's no wonder really. But we thought it would be fun to take a look at some of the things that have made news over the years.

In the beginning…

In July 1984, ***JRN***'s infancy, subscribers were getting 1 Year Jumbo CDs at 14% interest and the Federal Reserve, under the leadership of Paul Volcker, warned that if rates didn't come down, some institutions would (go down). The Fed was right. In October of that year, the **FDIC** disclosed that nearly 800 banks were on its "Problem" List ...and that didn't include savings and loans which soon began failing in droves.

Along came supervisory goodwill. In an effort to entice healthy institutions into buying troubled ones, both sides of the balance sheet could be discounted before the purchase. Of course assets still must equal liabilities + capital. In order to make that happen, regulators invented supervisory goodwill, an intangible asset that was worth nothing in the real world, but with a promise of 40 years to write it off, it was enough of an incentive for acquirers to take the bait.

As we all know now, supervisory goodwill turned out to be a really bad idea but the regulatory agencies were in such a bind, they had to do something. The **Independent Bankers Association of America** was suing the **FDIC** over its decision to disclose enforcement actions against banks; the **FSLIC** (Federal Savings and Loan Insurance Corporation—the now defunct predecessor to the **OTS**) was facing a class action suit for its policy of sending out interest payment checks on CDs prior to receivership and then placing a **stop payment** on the checks after. The FDIC survived its lawsuits but FSLIC's days were numbered. After imposing exit fees on savings and loans that wanted to jump ship in favor of the FDIC, it still could not prevent the exodus. Any thrift that was able to convert to a state chartered bank did so, leaving just the bottom of the barrel at FSLIC, which was rendered insolvent in 1987.

In 1987, a new era was ushered in at the Federal Reserve as Alan Greenspan replaced Paul Volcker at the helm. It was also a year for news of rogue CEOs and rampant fraud in the banking and savings and loan industries. From Charles H. Keating, Jr. of Lincoln S&L infamy on the west coast to our own David Paul of Centrust in Miami, there was no shortage of corruption.

Mr. Keating admittedly made political contributions to buy his way out of trouble. He avoided prison but not the furor. Two weeks after a 73 year-old lady grabbed him by the lapels and berated him in the courtroom, a retired comedian hit Keating in the head with a powdered wig. The degree of frustration of all the widows and others he conned was surpassed only by their frustration with the courts for not convicting him. Mr. Paul, on the other hand, wasn't so lucky. After losing his yacht, his Ruben's paintings and his gold-plated toilet fixtures, he still couldn't avoid jail time ...forever.

In August of 1989 we covered the passage of **FIRREA (Financial Institution Reform, Recovery and Enforcement Act)**, the birth of the **RTC (Resolution Trust Corporation)** and the end of CD interest rate guarantees at resolved institutions. This new policy underscored ***JRN***'s policy of only listing the rates of healthy institutions. After all, what good is it to lock in a 10% rate at a troubled institution if the rate expires when the institution does?

In December 1990 **(*JRN* 7:47)** we wrote: *"Clearly not a way to end a year, but Jumbo CD rates keep dropping—along with everything else… and we're looking at some 30-day Jumbo rates, quoted in this issue, as low as 6.375%."* (Clearly we didn't know at that time just how low they would go; 6.375% on a 30 day Jumbo actually sounds pretty good about now.)

Nobody ever imagined how expensive the thrift crisis would be. Early estimates generally ranged from $20 billion to $75 billion. Not even close. By the time the RTC ceased operations on December 31, 1995, 750 thrifts had been closed at an estimated cost of over $160 billion. But were lessons learned? Or will history repeat itself?

Probably both. The excesses of thrift executives were echoed in the Enron and World Comm scandals in 2001, but the banking industry itself has been closely watched and running very well until recently. The ultra cheap money made available after the terror attacks of September 11, 2001, and the subprime bonanza that resulted, will take their toll on the industry, but not to the extent we had in the '80s. Deregulation, insured deposits of $100,000, greed and opportunity combined to create the perfect storm that was the savings and loan crisis. We're glad we were here to help you navigate through it and we'll get you through this subprime debacle as well. Thank you for placing your trust in **BAUERFINANCIAL**.

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For **FDIC** Decisions on Applications, visit:
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**BAUERFINANCIAL, Inc.**
Gables International Plaza
Penthouse One
Coral Gables, FL 33134
800.388.6686
www.bauerfinancial.com